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Veröffentlichungsversion / Published Version
Zeitschriftenartikel / journal article

Empfohlene Zitierung / Suggested Citation:

Donnelly, S. (2021). German Politics and Intergovernmental Negotiations on the Eurozone Budget. *Politics and Governance*, 9(2), 230-240. <https://doi.org/10.17645/pag.v9i2.3928>

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Article

German Politics and Intergovernmental Negotiations on the Eurozone Budget

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Submitted: 15 December 2020 | Accepted: 24 February 2021 | Published: 27 May 2021

Abstract

This article examines selected political party positions on a Eurozone budget and fiscal transfers between 2018 and 2021. It posits that German government positions on common European debt and fiscal policy have undergone a significant but fragile shift. It must contend with continued domestic hostility before it can be said to be a lasting realignment. A great deal with depend less on the Social Democratic Party that is largely responsible for bringing it about with the support of German Greens, and more on the willingness of the Christian Democratic Union, their Bavarian sister party the Christian Social Union and the German voting public to adopt a more interventionist fiscal policy as well, generating shared commitments to economic policy at home and in Europe. That has not happened yet.

Keywords

competitiveness; Economic and Monetary Union; European Stability Mechanism; European Union; Eurozone budget; fiscal union; Germany; public finance

Issue

This article is part of the issue “Reforming the Institutions of Eurozone Governance” edited by Anna-Lena Högenauer (University of Luxembourg), David Howarth (University of Luxembourg) and Moritz Rehm (University of Luxembourg).

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1. Introduction: Puzzle

How much of a shift has taken place in Germany’s policies on the structure, rules, and institutions of the Eurozone? What kind of impact have German preferences had on the 2020 negotiations over the EU budget and the complementary Recovery and Resilience Facility (henceforth, the Rescue Plan)? How should its collaboration with France over these issues best be understood? And how is Germany’s stance likely to evolve into the future?

Germany’s relaxation of its role as anchor of the single currency and proponent of fiscal discipline was significant in mid-2020, bringing it closer to France and Southern European positions supporting common debt and fiscal capacity. One notable result of this relaxation was support for a joint initiative with France for temporary intergovernmental financial transfers designed to offset some of the costs of fighting the Covid-19 pandemic. The plan envisaged five hundred billion euros of

grants to be distributed across the EU, financed through the issuance of common debt, a measure that previous German governments had refused to contemplate on principle. This borrowing and redistribution would come on top of another €250 billion raised by the European Commission and lent to the member states, as well as loans organized by the European Investment Bank which were already earmarked for investment in greener and more cohesive economic activity (European Investment Bank, 2021). Finally, in this context, the European Stability Mechanism (ESM) also stood ready to loan money in addition to the EU’s budget and borrowing capacity. All told, the €750 billion increase in the EU’s budget significantly increased EU capacity from just over €1 trillion to over €1,8 trillion, not including funds available through the European Investment Bank.

This development is striking in light of Germany’s unwillingness to contemplate either borrowing or transfers, or even a contribution-based increase of the EU’s

budget as recently as early 2020, and well into the first few months of the Covid-19 pandemic. Although the volume of grants was negotiated down to €390 billion in July 2020 and transfers came into question, this opposition came from a small coalition led by the Netherlands rather than Germany itself. While these developments cannot be considered German support for a Hamiltonian moment of European fiscal federalism, they cross the Rubicon of fiscal transfers between states and common debt for the first time. This makes it a significant change in Germany's Economic and Monetary Union (EMU) policy.

Given Germany's historical opposition to transfers and common debt, I ask whether this constitutes a transformation that will outlast the Covid-19 crisis, or a temporary deviation similar to that of 2004–2005. Although Germany is not the only country that matters in the trajectory of the Eurozone, it is decisive in which directions EMU can develop in response to challenges. EU agreements on Covid-19 response, and their budgetary implications pose more than one puzzle. How was a shift in Germany's position possible? How do we account for the timing, specifically the rapid shift in May 2020, given the continuity of Germany's stance on EMU rules beforehand? And how much of a change is this likely to entail?

This article seeks to answer these questions by focusing on the ideational positions of the Social Democratic Party (SPD) and the Christian Democratic Union/Christian Social Union (CDU/CSU) parties, with attention to selected leadership and public opinion allies in particular, supplemented by public opinion data. It focuses on the opportunities and constraints in Germany for the Finance Minister to bring about a shift in the country's macroeconomic policy stance on EMU, including the issue of EU financial transfers. The implications for the durability of Germany's rapprochement with France over the basics of EMU membership and its overall priorities after a longer period of estrangement between the two countries will then be considered. The article's primary conclusion, which it demonstrates below, is that Germany's voters and popular CDU/CSU parties will remain significant forces for fiscal restraint in the future, both at the national and European levels. This is seen in the parameters and conditions attached to the Rescue Plan, and in discourse over what happens when the existing plan expires. Depending on broader EU economic and political developments (whether the Eurozone comes under tremendous strain once the Rescue Plan expires), Germany can be expected to either block its extension (assuming little stress) or attach further conditions to its lending programs (if stress resumes). This article contributes to the literature on German preferences in EMU and its role in EMU politics. It begins by assessing the state of the literature regarding German preferences and negotiation strategies in EMU, which largely matches the record through March of 2018, and then moves on to assess how much change has occurred since then and why.

2. Framework and Case Design

Within the literature on EMU development and EU integration, large innovations naturally attract neofunctional analyses in which form follows need (Niemann & Ioannou, 2015), guided by EU institutions. It also attracts intergovernmental analyses that emphasise disparities in national positions and bargaining power coupled with lowest common denominator voting systems to explain the EU's institutional output (Howarth & Quaglia, 2020). The intergovernmental literature on EMU incorporates not only distributional conflicts between haves and have-nots, but also ideational divides that strengthen the differences between them (Schäfer, 2016). In other words, conflicts are not only about the transfer of resources, but also whether such transfers are appropriate. This article builds on the ideational analysis of EMU negotiations by examining whether and to what degree German policy ideas have changed as a result of the Covid-19 crisis.

This article hypothesises that national governments able to reach stable international agreements are those that hew closely to public preferences (Carrubba, 2001). This prioritisation of domestic political preferences forms the foundation of both liberal intergovernmentalist literature on institutional supply (Howarth & Quaglia, 2016, 2020) post-functionalist accounts of the impact of identity, ideas, political saliency and constraining dissensus of EU affairs (De Vries, 2007; Down & Wilson, 2008; Hooghe & Marks, 2009) and the kinds of outcomes they entail, particularly weak *de novo* institutions (Hodson & Puetter, 2019) or weak institutional architectures and endogenous cycles of institutional improvement (Jones, Kelemen, & Meunier, 2016; Kleine & Pollack, 2018). Similarly, it shows up in analysis of the impact of fiscal transfers on support for EU policy, and for supranational agreements in general (Chalmers & Dellmuth, 2015; Tallberg, Bäckstrand, & Scholte, 2018).

This leads to the expectation that heads of government as political entrepreneurs will promote and protect positions that reflect political demand at home over the medium to long term. In the case of German EMU policy, this is reflected in strong promotion of institutions that reduce risks at the national level, at the same time that financial assistance mechanisms across countries remain underdeveloped (Donnelly, 2018a; Schoeller, 2020). At the same time, we look to determine how much short-term policy entrepreneurship takes place in the absence of strong domestic political demand, driven by policy expertise and attempts to coordinate solutions that manage the country's interdependence with others on a mutually voluntary basis. This domestic, national orientation can be falsified by looking at the actions of a German Finance Minister who is broadly in agreement with a classic neofunctional network of supranational (EU, IMF, OECD) and transgovernmental institutions and actors.

To answer the questions posed above, this article focuses on Germany's domestic politics and its approach to Eurozone budget negotiations in the period stretching

from March 2018 until the fall of 2020. This start of this time frame is chosen to coincide with the installation of a German Finance Minister from SPD with sympathies for fiscal union between the Eurozone member states, who simultaneously is embedded in a Grand Coalition with conservative CDU/CSU. It is broken down into three moments in which economic and political conditions are markedly different: pre-Covid-19 crisis (March 2018–March 2020), early Covid-19 crisis (March 2020–May 2020), and advanced Covid-19 crisis (May 2020–). Each period then analyses German positions on common Eurozone responses to economic and political need, through existing institutions and programs (national structural adjustments buttressed where necessary by ESM emergency loans), or through common debt and cross-border transfers. Contributions to German policy are broken down into the positions of policy entrepreneurs (as elites), political parties, and voters, taking into account domestic, transnational and intergovernmental inputs.

The study starts by looking at the policy preferences and initiatives of the SPD Finance Minister of Germany and his second in command to advocate common debt and transfers within the Eurozone, together with the French and EU counterparts who supported such a shift. It then looks at the policy preferences and actions of the (CDU/CSU) party fraction which led the government and opposed any movement in this direction until mid-2020. Finally it covers the degree of public support for change or continuity over common debt and transfers. Through this, we can map German policy change, and ascertain the ability of the various parties to effect lasting change in EMU policy, and therefore institutions.

The literature on EMU development, German positions regarding fiscal transfers and the negotiations dynamics between France and Germany show consistencies over a longer period of time that underline Germany's deeply-seated domestic preferences for conservative monetary and fiscal policy (Hodson, 2017; Howarth & Verdun, 2020). This pattern remains consistent despite two concessions to French preferences for more interventionist and activist fiscal policy that can be attributed to the cognitive frameworks of individual German Chancellors. Helmut Kohl is known to have ensured that EMU proceeded despite concerns about the enforcement of fiscal membership rules due to Germany's historical duty to support European integration. Later, Gerhard Schröder worked together with France to introduce a relaxation of those rules in 2005. In addition to these two cases, Angela Merkel is known to have blocked attempts to push Greece out of the Eurozone in 2012 and 2015 to preserve the unity of the currency bloc. However, the original design of EMU, including the Stability and Growth Pact, and analyses of EMU negotiations since then rightly underline that political parties, public opinion and interest groups remain consistent in their rejection of common debt and cross-border transfers.

The frame for analysing Germany's domestic political attitudes toward EU budgets, transfers, emergency aid and repayment conditions starts with the question of whether Germany's parties and public respond favourably to them or not. If we witness a broad shift in thinking, then we should expect the new German position to remain stable over time, and for Germany to support similar Franco-German compromises into the future. If not, then we should expect the agreements to be of a one-off nature that applies only to a singular crisis situation, to expire after the crisis has passed, and for preferences from the Schäuble era to reassert themselves after the expiration of the current European Rescue Plan.

This article's working hypothesis is that a meaningful shift in German economic principles has taken place from ordoliberalism to neokeynesianism at the level of the German Finance Minister, his senior staff and his political party, and made visible by collaboration with French and European officials in the introduction of the 2020 Rescue Plan. At the same time, this shift is not fully shared by CDU/CSU politicians, or in domestic society. They remain committed to fiscal conservatism and expect Europe to return to the pre-Covid-19 economic rules after the crisis has abated. The weight of German political and public opinion is felt further in the absence of any increased public support for the SPD as a result of this policy shift. Overall, this speaks more to a temporary life span of the 2020 agreements, based on the expected tendency of major political parties to reflect societal demands unless a more fundamental disruption of the economy leads public opinion to review its ideational commitments.

This article proceeds as follows. It first reviews briefly the pre-2018 configuration of people, doctrines and institutions for the single currency to lay out the political and institutional landscape inherited by the actors around the table. It then moves to examine plans and negotiations in the period between March of 2018 and March of 2020, covering the rise of mutually supportive French and German finance ministers dealing with the prospect of a Eurozone budget. This is the potential neofunctional moment which did not come to fruition. In the penultimate section the article examines the period from April 2020 onward to underline the impact of Covid-19-induced changes on German, French, Dutch and Italian politics, and therefore the prospects for a Eurozone budget. We then conclude with observations about the dynamics involved that explain these developments.

3. Pre-2018: People, Interests, Doctrines and Institutions

Germany's politicians, voters and key opinion makers have been fairly consistent about their ordoliberal macroeconomic policy preferences since the planning days of the single currency. The exception was 2004–2005, when the Schröder government moved with the Chirac administration in France, and then the entire ECOFIN Council, to set aside the Excessive Deficit

Procedure and introduce medium-term budgetary objectives. Even then, however, the hold of ordoliberal principles is visible in Germany's SPD government instituting harsh structural adjustment reforms (Hartz IV) that counteracted any notion of broader political 'wetness' on social and fiscal policy. After the Schröder government left office in November 2005, three coalition governments followed under Angela Merkel that restored and pushed for the export of orthodox/ordoliberal macroeconomic principles across Eurozone member states, and EU budget oversight mechanisms to strengthen those demands (Otero-Iglesias, 2017). This owed a great deal to the shift of SPD under Finance Minister Peer Steinbrück (2005–2009) away from Keynesian demand stimulus and toward bipartisan consensus on budget retrenchment. This position left the German Green Party as the only champion of a more social macroeconomic policy, and intergovernmental transfers within Europe. With agreement between the CDU/CSU and SPD that Germany should reject fiscal union for EMU, Finance Minister Wolfgang Schäuble (2009–2017) could uphold this position throughout the next grand coalition (2009–2013), and the conservative-liberal coalition (2013–2018) that followed it. At the European and national levels across Europe, budgets were to be balanced (*Schuldenbremse*), and economies (re)structured to ensure price levels remain stable or move downward (focus on external competitiveness rather than domestic demand). Similarly, the EU budget was to remain limited. The strength of this imperative was tested after the Brexit referendum of 2016 led some other member states and EU institutions to call for a larger EU budget ("Schäuble eyes," 2016). Throughout this long period of stewardship, Schäuble's steadfast position on European questions was rewarded with unwavering support from party and voters alike ("Politico poll of polls," 2020). Bremer (2020) also notes that the SPD unreservedly adopted the same positions on fiscal conservatism from that period on.

Schäuble's hawkish positions on EU budget size and on fiscal transfers set the tone for conditional cooperation with French politicians during his tenure. France had no meaningful impact on this stance. Rather, French governments varied in their willingness to work together with their German counterparts on EMU. France's politicians, voters and key opinion makers have consistently supported a more interventionist macroeconomic policy strategy, although each administration chose its own tactics on how to engage with Germany. The conservative Sarkozy government (2007–2012) worked together with Germany to establish macroeconomic policy surveillance and downplayed the fiscal union demands of its predecessors, while the socialist Hollande government (2012–2017) lobbied hard for fiscal union and relaxation of surveillance in the European Semester without much effect (Schild, 2013). Even a joint statement between French Finance Minister Emmanuel Macron and German Minister for Economics and Energy Sigmar Gabriel sup-

porting transfers at the zenith of the 2015 conflict between Germany and Greece within the Eurozone (Gabriel & Macron, 2015) fell on barren ground as Schäuble pressed the imperative of national budgetary and structural adjustments, and the destructive moral hazard effect of transfers on necessary reform efforts (Schild, 2020). The liberal Macron government (May 2017–) found its own mix of supporting ordoliberal macroeconomic surveillance and structural reforms with more Keynesian proposals to establish a Eurozone budget. This proposal hoped to secure a transactional quid pro quo between French demands for greater collective budgeting, and German demands for greater structural reforms at the national level.

Howarth and Schild (2017) contend the Banking Union era from 2012 allowed France to advance proposals for embedded liberalism, in which market forces are softened with state intervention mechanisms. The successes they point to were the establishment of the European Financial Stability Facility as a crisis management tool (already from 2010) and the establishment, albeit formally, of a more symmetric macroeconomic policy recommendation framework in the Macroeconomic Imbalances Procedure in 2011. Certainly there is German and French collaboration on these institutional innovations under France's Sarkozy government, but if we were to try to measure embedded liberalism as the presence of macroeconomic shock absorbers, or of countercyclical macroeconomic intervention (fiscal stimulus during downturns, whether broad or targeted to promote sunrise industries, inclusivity and greening of the economy), we would not find evidence to support any meaningful influence of French ideas about macroeconomic policy along the lines of an EU budget or a new rule structure that gives national governments more fiscal room to manoeuvre. The European Financial Stability Facility, and the ESM that followed it, provide loans attached to conditions stipulating budget retrenchment and structural adjustments. They act as an emergency intervention to keep the single currency from falling apart, but have impacts that are incompatible with the mainstreaming of social protection that we understand under embedded liberalism.

Rather, the ESM is better understood as an institution that balances Chancellor Merkel's concern to hold the Eurozone together and Schäuble's concern for fiscal responsibility—a balance that is visible in the Eurozone's relationship to Greece in 2015. Pressure on national governments was increased, but not allowed to eject a member state. Similarly, the Macroeconomic Imbalances Procedure adopted in 2011, while opening the door to hypothetical critique of large current account surpluses in Germany and the Netherlands, or wildly inflated private debt levels, remains asymmetrical in application, focusing on country-specific recommendations for countries with public budget deficits and current account deficits, along with attention paid to the enforcement of such recommendations through the introduction of the

reverse qualified majority vote for the Excessive Deficit Procedure. These institutional innovations are indeed best understood as the product of selective Franco-German cooperation during the Sarkozy administration that focused on Eurozone system maintenance, rather than on Franco-German compromises on the budgetary and fiscal matters that France supported (Brunnermeier, James, & Landau, 2018; Degner & Leuffen, 2020; Lehner & Wasserfallen, 2019; Notermans & Piattoni, 2020). Degner and Leuffen (2020) underline that this was not dual leadership, but German. The limits were visible in France's failure to secure German support on a series of support mechanisms, including a more robust financial intervention role for the European Financial Stability Facility, and subsequently the ESM (Howarth & Schild, 2017, p. 185).

German imperviousness to French and other European demands were also visible in the outright hostility of Franco-German relations during the Hollande administration, which advocated directly for fiscal union and tried to gather together a coalition of countries to support its demands, but to no avail. 2011–2013 was a period in which Italy's technocratic Monti government and Spain's conservative Rajoy government were adopting ordoliberal prescriptions for budget cuts, structural reforms and toning down long-standing interest in fiscal union creation to secure renewed access to financial markets (Donnelly, 2018a). It was also a period of polarisation between Germany and the governments of Cyprus and Greece, in which the latter's demands for fiscal transfers poisoned the well for French and Italian arguments then and thereafter (through mid-2018: see the centre-left Italian Letta, Renzi and Gentiloni administrations, as well as the Conte administrations that followed). This growing gap is mirrored by strong support for Germany's stance by successive Dutch coalition governments led by Liberal Prime Minister Mark Rutte from 2011. As in Germany, budget discipline and rejection of EU budget enlargement or fiscal union enjoyed sustained and unquestioned cross-party support, with the exception of the Dutch Greens. In sum, the situation Olaf Scholz inherited in March 2018 in no way supported the development of a Eurozone budget, even if his reported preferences lay in that direction.

4. March 2018–March 2020: People, Interests, Doctrines and Institutions

March 2018 is a relevant inflection point to contrast with the time periods preceding and following because it is the moment that brings a German Finance Minister into office with sympathies for fiscal union of some sort, and with links to counterparts in the French government with the potential to support and shape his proposals. And yet, a new political desire to introduce a larger Eurozone budget failed to translate into concrete achievements on this front, given the lack of support from conservatives, and voters and his own

SPD, which remained divided and focused on internal German politics at the expense of EU affairs. Olaf Scholz, mayor of Hamburg and member of the party's technocratic/conservative wing, took up the position of Finance Minister within Angela Merkel's grand coalition government between the SPD and CDU/CSU.

Scholz's position within his own party, as well as the electoral fate of the party, and internal party politics proved relevant for shaping what kind of proposals were worked on and brought forward during this period. As outlined above, the SPD up until this point had rejected the idea of a sizeable EU or EMU federal budget, and had hewed to Germany's mainstream conservative voters in their rejection of such proposals rather than adopting a profile distinct from that of the CDU/CSU (Bremer, 2020). But this strategy had not resulted in electoral success—the party remained persistently weak in the polls—and over time, led to increasing divisions within the party and voter migration to other parties as well. Advocates of greater European cooperation moved to the Green Party, which advocated a fiscal union of some kind and grew in importance in the Bundestag, but was relegated to the political opposition through this entire period. Conservative opponents of economic assistance to financially fragile Eurozone member states, meanwhile, launched judicial challenges to the European Central Bank assistance for Southern Europe (Saurugger & Fontan, 2019).

This centrist position led to problems within Scholz's own party, and hence hampered any ambitions he may have had to reshape domestic or European institutions. This was not just a question of uncertainty, but rather of internal division. In response to the Party's continued electoral decline, the membership's left wing began demanding a stronger domestic and European policy shift which the centrists found untenable, and even troublesome for legal reasons, given the country's constitutional ban on deficit spending (Karremans, 2020). Until August 2020, left and right cohorts within the party collided over the question of whether the 2005 decision to adopt ordoliberal prescriptions for austerity and structural adjustment in search of mainstream electoral support was a good move (in the sense of being a necessary evil to restore and maintain economic competitiveness and stable state finances) or not. To this question was added whether Germany should share financial burdens with other countries in Europe by supporting EU-level transfers and schemes. Younger party members and activists supported a shift away from ordoliberalism and the *Schuldenbremse* domestically, but remained relatively silent on European economic policy (Grunden, Janetzki, & Salandi, 2017).

This division was felt in December 2019 when the extra-parliamentary party, which is responsible for overall policy and strategy, moved to the political left. At the time, the SPD rejected Scholz as (non-parliamentary) party leader, and refused to name him as the party's (parliamentary) candidate for Chancellor in the next

election. The party selected instead a duo representing the centre- and left-wing cohorts of the party: Norbert Walter-Borjans, the centrist, was the former premier of North-Rhine Westphalia, and Saskia Esken, the left-wing leader, agitated for a break with the CDU, a shift to a more pro-social stance, an alliance with the Green Party, and possibly with anti-capitalist and anti-EU party Die Linke (The Left Party; “SPD candidate,” 2019). This strong pull from the party leadership and membership for a sharp shift to the left raised important questions as well regarding the SPD’s commitment to the EU overall, including a larger Eurozone budget. While this shift to the left might have given Scholz support for a common budget in principle, the manner in which the SPD was tearing itself apart over economic and European policy did not result in either policy wins or electoral gains. Public support for the SPD, which had been in steady decline for years, did not recover as a result of this shift. CDU voters remained loyal to their party, even as an evolving leadership contest to succeed Chancellor Merkel faltered with declining support for her designated successor, Annegret Kramp-Karrenbauer. She led the party from 2018 but resigned in February 2020.

At the same time as this conflict was playing out, Franco-German interaction on the prospect of a fiscal union for the entire EU or a Eurozone budget for those member states progressed quietly and slowly at the trans-governmental and intergovernmental levels. At the trans-governmental level, Scholz’s right hand man, Jörg Kukies, worked with his counterpart in the French Ministry of Finance, Odile Renaud-Basso to devise plans for a workable improvement of the EU/Eurozone fiscal framework (Florence School of Banking and Finance, 2020).

Not much is known from transgovernmental documents about how far the overlap between the two sides went, but the intergovernmental level between President Macron and Chancellor Merkel tells us a great deal. The Meseberg Declaration of June 2018 was the result of a bilateral discussion between the two leaders, in which the topic of an EU budget was recognised as a topic of negotiation, without explicitly committing to such an outcome. But the negotiations did not favour France. This is demonstrated in the whittling down of Macron’s Eurozone budget and fiscal union proposals into the Budgetary Instrument for Convergence and Competitiveness on the basis of German objections, which reinforced the structural adjustment and fiscal responsibility mantras of the existing European financial stability architecture, and the central role of the ESM in holding that system together in emergencies rather than EU funds (Schoeller, 2020). Later, in mid-2020, information from the two Finance Ministry representatives (below) will demonstrate that the negotiation is one of how to establish common measures that will satisfy financial markets (Florence School of Banking and Finance, 2020).

Outside of the central Franco-German relationship, the increasingly loud demands for fiscal union from Italy

and the contrary demands for national responsibility from the Netherlands seemed to cancel each other out. This is visible as the Netherlands led a New Hanseatic League of small, Northern, fiscally conservative states afraid of Germany relaxing its insistence on EU frugality in its talks with France, and as the populist Conte I government in Italy insisted on transfers, each hewing to their own national publics (Hix, 2018; Matthijs & Merler, 2019).

Discussions at the 17–21 February 2020 Council meeting, before the pandemic spread across Europe, proved inconclusive. French and German negotiations had progressed under the radar, but their own domestic and international environments remained unchanged. Within the CDU, which had just lost an interim leader committed to the EU’s status quo, none of the contenders to succeed Annegret Kramp-Karrenbauer yet envisaged moving toward a Eurozone budget.

5. April 2020 and the Aftermath

The Covid-19 lockdown drove Germany’s government to introduce successive rounds of targeted domestic economic stimulus funded by borrowing with bipartisan support (Kluth, 2020), and provided an opportunity for the Finance Ministry to discuss a common position on EU budgetary instruments with France through May, and then take those plans to the European level. Temporarily breaking the sanctity of the *Schuldenbremse* domestically made these other initiatives possible, but the consequences for Europe remained contested within German parties, particularly within the SPD and the CDU/CSU.

In promoting EU stimulus, the government enjoyed tenuous but sufficient support. The SPD’s Walter-Borjans supported EU assistance arrangements to be made swiftly and practically, while dealing with more fundamental problems later. This meant starting with the ESM as an existing instrument of solidarity among equals, but without ‘humiliating’ conditions that imposed hardship typical of ESM loans in the past (Carbajosa, 2020). The Greens went further, arguing that the ESM’s tainted history demanded EU initiative based on grants instead (Hill, 2020). The SPD’s Esken chimed in to support the Green proposal (Esken, 2020; Fritz, 2020). In other words, the SPD remained divided on the issue of support for grants to other member states, and a larger EU budget to do that. Bremer (2020) describes this as the party lacking a policy paradigm to bring to voters and apply to policy.

From within the CDU meanwhile, Armin Laschet, governor of the country’s most populous state of North-Rhine Westphalia and then candidate to replace Merkel in the party’s upcoming leadership elections, announced in April the necessity of a larger EU budget financed by contributions (rather than borrowing), akin to a Marshall Plan to combat the crisis, coupled with measures to repay once the crisis was over (“Laschet verlangt,” 2020). Although Laschet would only be confirmed as Chancellor candidate in January 2021, this statement is meaningful

for the resonance it gained with party members and the broader electorate, which found the position appealing. Ironically, it placed the CDU in a more pro-Europe, pro-EU-budget and interventionist position than the SPD could definitively claim at that moment.

The CDU/CSU finally showed full support for grants and borrowing in mid-May, after Chancellor Merkel and President Macron proposed a €500 billion program of grants to be borrowed by the EU during the 2020–2027 budget and repaid collectively by the EU in the 2027–2034 budget. Insisting that Germany only prospers when Europe prospers, Merkel won support from CDU/CSU parliamentarians at home and in the European Parliament, and from Wolfgang Schäuble as well to set aside rejection of deficit spending, and grants at the EU level (Hill, 2020). Only Friedrich Merz, who unsuccessfully competed to succeed Merkel as CDU Chancellor candidate with support from the right, neoliberal wing of the party, railed against transfers along with the opposition liberals (Free Democratic Party) and the xenophobic, anti-EU right-wing party Alternative for Germany (Rinke, 2020).

Once the announcement had been made, Kukies and Renaud-Basso outlined the details of their project in an online event on 22 June 2020 with the European University Institute's Florence School of Banking and Finance (2020). They outlined their common strategy of targeted economic stimulus aimed at improving future economic performance. Collective European investments would be subject to these conditions, both through EU grants and loans backed by collective debt and ESM loans, with the former used more frequently for the first time. This reflected their shared domestic imperatives to ensure money supported a greener, more inclusive and more productive economy in the process. While Renaud-Basso underlined strategic investment, Kukies stressed that the plan had been designed in such a way as to underline the credibility of spending strategies to financial markets (Florence School of Banking and Finance, 2020). This meant that in tune with previous critiques of crisis-driven public spending in Greece and elsewhere, that a significant portion of the money would be spent on transforming the economy to meet future needs and generate future income, rather than spending it on income support without any further plans for economic development. The concrete implications of this can be seen in Commission and Council agreement that alongside investments in health care systems which required upgrading in light of the shortcomings revealed during the pandemic, that money would also be directed toward future growth in digital transformations and environmentally-friendly retrofitting of economy, society and public administration.

Kukies acknowledged that the plan ducked the question of the Hamiltonian moment of European fiscal capacity, noting that their plan shelved that question to a later date (Florence School of Banking and Finance, 2020). Instead, the focus would remain on the present,

and designing the Rescue Plan to promote a more highly developed, productive, and resilient Europe in the near future. The overall construction was designed to ensure the EU could help badly hit economies, promote future recovery, assuage Italian rejection of loans with conditions attached, and push off Dutch (and more critical German domestic) concerns about an EU federal budget (below).

At the European level, the Franco-German announcement preceded Commission proposals, but was intended to be incorporated into them in combination with the Multiannual Financial Framework. In Council, the Frugal Four (the Netherlands and Austria, with support from Denmark and Sweden) supported the continued use of the ESM for emergencies and opposed grants and collective borrowing. They squared off against Germany, France and the other member states until the last hours of the 17–18 July summit, which they forced to extend to 21 July (Rose & Nienaber, 2020). During this time, the Four rejected grants outright until Sweden dropped its opposition on 20 July, followed by Denmark and Austria, leaving the Netherlands isolated. It achieved fewer grants and more loans with (undefined) conditions, and underlined the one-time nature of the measure. In the Netherlands' domestic justification of its eventual support for economic assistance, these elements of productivity enhancement and conditionality played significant parts of the government's reasoning that everything had been done to avert wasting money, laying the groundwork for a future crisis and prevent making future transfers permanent. The plan would be a one-off measure (Tweede Kamer, 2020).

While the German and French proposals had not been fully realised, the European agreement provided a precedent for a shift on domestic and European budgetary policy on which future German politicians could build, both on policy and on the basis of parliamentary support. Here the statements of various CDU/CSU politicians and opinion leaders shed light on where German policy is likely to stand, given the party's consistently strong standing in voter opinion surveys, ahead of the Green Party and the SPD in third place (Infratest Dimap, 2021). The party is also diverse in its views, but the favoured policies remain clearly outlined.

The most positive support for the Rescue Plan came from the former finance minister. Wolfgang Schäuble took the position that the Plan was a good step to keep the Eurozone together, and that a temporary relaxation of the budget rules was appropriate, given the high levels of debt required to stave off disaster. He also supported some reform of the rules before reinstating them. This put him in line with the European Commission, which announced the use of the escape clause in the Excessive Deficit Procedure. He did not go as far as to support the European Fiscal Board's call for a thorough discussion and overhaul of the pact, particularly their strong critique of the 60% of GDP ceiling on public debt (Fleming & Khan, 2020). Focusing on the effects of the fund,

Schäuble maintained that a common strategy would be crucial to whether the Fund works: How governments spend would be bound to determine success or failure of stimulus. The EU should discuss common strategies for funnelling investment into future productivity through digitalisation, artificial intelligence, greening the economy and the like (Chazan, 2021a).

This was as far as the rest of the Party was prepared to go in rethinking economic policy and law. Top Merkel aide Helge Braun proposed scrapping the country's debt brake (*Schuldenbremse*) or shifting from annual to multi-year exemptions in January 2021 (Braun, 2021). He reaped strong opposition within the CDU, starting with the CDU's General Secretary, Paul Ziemiak and the party's new Chancellor candidate Armin Laschet. Ziemiak demanded the debt brake be reinstalled by 2022 rather than later as Braun had suggested (Chazan, 2021b). Outside the party proper, Lars Feld, conservative economist and member of the country's Council of Economic Experts, attacked a constitutional amendment required to repeal or change the *Schuldenbremse* as a slippery slope to hollowing out the deficit brake. Special exemptions would multiply and be hard to control (Seibel, 2021). Markus Söder, leader of the CDU's Bavarian sister party CSU, also rejected touching the law (Finke, 2021). This animosity to changing economic policy principles extended equally to the EU's plan. CSU MEP Markus Feder railed against the inclusion of grants entirely, expecting Italy to disregard conditions on loans (Finke, 2021).

Meanwhile, the CDU's candidate for Chancellor in the 2021 elections (Armin Laschet) demonstrated support for targeted, temporary assistance but also a need to return to pre-Covid-19 economic governance norms. Laschet himself had made a point domestically that state support for hospitals could only be used for corona-related deficits, and had to be repaid as soon as the pandemic was over. He also insisted on future budget cuts and minimizing transfers out of Germany to protect future generations from the burden of debt ("Laschet fordert," 2020). The fact that Laschet was responding to deficit hawks in the state SPD party underlines the conservative position of the centre in Germany's most populous state ("Laschet: Schulden für Rettungsschirm," 2020). Given these policy positions, plus the fact that the SPD show no sign of taking votes from either the CDU or Greens (Infratest Dimap, 2021), there is reason to believe these positions will dominate into the future. Even advice from the European Central Bank to amend the debt brake and the thinking behind it, most recently from Isabel Schnabel, has fallen on deaf ears (Arnold, 2021; Donnelly, 2018b).

European policy, both within the EU and the Eurogroup appear to follow this German concern with repayment and return to 'normal' as well, also with regard to timing. In early 2021, Scholz declared that the EU should not rush to a decision while there was still so much Covid-19-related uncertainty. Meanwhile,

Eurogroup President Donohoe simultaneously called for a faster rollout of national plans to spend money, and also to discuss the re-introduction of budget rules, and the European Commission would consider a finite date for returning to the Excessive Deficit Procedure, but not until 2022 (Fleming, 2020, 2021). This hewed closer to Germany's position rather than that of France, which argued that an exit date would damage the recovery. Finance Minister Le Maire underlined that the Recovery Fund was already proving too slow and complicated to use to its full potential due to the requirement that national governments draft plans on how to use the funds and receive Commission approval before disbursement (Mallet & Abboud, 2021).

6. Conclusions

This article demonstrates the politics of introducing EU budgetary instruments and their alternatives to German voters and party members in three time periods: during the tenure of Wolfgang Schäuble, during that of Olaf Scholz before the Covid-19 lockdown, and that of Scholz in the context of the economic disruptions of 2020. Covid-19, combined with Merkel's leadership, has made it possible for the Germany and France to propose the Rescue Plan together by changing German political discourse from scepticism to acceptance of a larger EU budget, at least through 2024. Agreement on joint borrowing to finance this is more tenuous however, as the inclinations of the CDU/CSU's red lines on the EU budget demonstrate, and support for that party confirm. The freshly anointed CDU Chancellor candidate campaigned in 2021 on a program that envisaged a larger EU budget in the future (presumably from 2027, once the current Multiannual Framework runs out), but with greater restrictions on borrowing, and greater insistence on repayment of loans once the Fund has expired in 2024. This would mean a reversion to the prior fiscal oversight architecture, coupled with ESM-centred loan facilities and oversight mechanisms for emergencies that EMU inherited before the crisis started. Changes are made in an incremental fashion (Jones et al., 2016).

While the positions of France and Germany appeared deadlocked even in the early days of the Great Lockdown imposed by Covid-19, by June of 2020, the two countries had united on a temporary, but financially significant fund for the EU as a whole that some would like to see evolve into a more permanent set of fiscal transfers within the EU. However, there are clear signs that future German governments seek to return to the pre-Covid-19 architecture that reinforces norms of national fiscal responsibility and budget retrenchment, with the ESM as the lender of last resort (Rehm, 2021; Zagermann, 2021) rather than the EU, given the Commission's reluctance to enforce fiscal policy rules (Sacher, 2021). While an extension or expansion of the Rescue Plan and the principle of transfers cannot be ruled out, much as the European Financial Stability Facility became the ESM to combat

long-term financial market speculation against the borrowing capacity of individual member states, negotiation will not be easy, and the prospects for a Hamiltonian moment based on mutual debt and transfers should be measured with caution.

Acknowledgments

The author would like to thank two anonymous reviewers for the comments, as well as Anna-Lena Högenauer, David Howarth, Dennis Zagermann, Dina Sebastiao, and Clément Fortan.

Conflict of Interests

The author declares no conflict of interests.

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